

1. GENERAL

The Company is a public limited company incorporated in Hong Kong. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the Group was principally involved in the manufacturing of steel cords and processing and trading of copper and brass products.

2. CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants (the "HKSA"), the term of HKFRS, is inclusive of Statements of Standard Accounting Practice ("SSAP"s) and Interpretations approved by the HKSA.

SSAP 12 (Revised) "Income taxes"

The Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly. Opening accumulated losses at 1 January 2002 have been increased by HK\$161,000, which is the cumulative effect of the change in policy on the results for period prior to 1 January 2002. The balances on the Group's property revaluation reserve and land use rights revaluation reserve at 1 January 2002 have been reduced by HK\$217,000 and HK\$509,000 respectively, representing the cumulative effect of the adoption of SSAP 12 (Revised) on equity. In addition, as at 1 January 2002, the minority interests and deferred tax liabilities have been decreased by HK\$285,000 and increased by HK\$1,172,000 respectively. In current year, the effect of the change is an increased charge to income taxes of HK\$149,000 (2002: a credit of HK\$310,000).

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3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and land use rights.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, jointly controlled entity or associate as at the date of acquisition.

Goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves, and will be charged to the consolidated income statement at the time of disposal of the relevant subsidiary, jointly controlled entity or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisition after 1 January 2001 is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of a jointly controlled entity or an associate is included within the carrying amount of the jointly controlled entity or associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary, jointly controlled entity or associate at the date of acquisition over the cost of acquisition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

Negative goodwill arising on acquisition prior to 1 January 2001 continues to be held in reserves and will be credited to consolidated income statement at the time of disposal of the relevant subsidiary, jointly controlled entity or associate.

Negative goodwill arising on acquisition after 1 January 2001 is presented as deduction from assets. To the extent that such negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to consolidated income statement in the period in which those losses or expense arise. The remaining negative goodwill is recognised in consolidated income statement on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Negative goodwill arising on the acquisition of a jointly controlled entity or an associate is deducted from the carrying value of that jointly controlled entity or associate. Negative goodwill arising on the acquisition of subsidiaries is presented separately in the consolidated balance sheet as a deduction from assets.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment losses.

Interests in jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity in so far as it has not already been written off, less any identified impairment losses. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

The Company's investments in jointly controlled entities are stated at cost, as reduced by any identified impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates, less any identified impairment losses.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is credited to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease, including the renewable period, is 20 years or less.

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and identified impairment losses.

Leasehold land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Any revaluation increase arising on revaluation of leasehold land and buildings is credited to the property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Construction in progress represents buildings and plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Depreciation is provided to write off the cost or valuation of assets, over their estimated useful lives, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the estimated useful life of 25 to 50 years
Leasehold improvements	20% – 25%
Plant and machinery	4% – 30%
Furniture, fixtures and equipment	9% – 30%
Motor vehicles	11% – 30%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Land use rights

Land use rights are stated at valuation less accumulated amortisation and any identified impairment losses, and are amortised on a straight-line basis over the respective remaining joint venture periods once commercial production commences.

Changes in the value of land use rights are dealt with as movements in the land use rights revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the land use rights revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Club memberships

Club memberships are stated at cost less any identified impairment losses.

Investments in securities

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment losses that is other than temporary.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method or weighted average method and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Sales of goods are recognised when the goods are delivered and title has passed.

Interest income is accrued on a time basis by reference to the principal outstanding and the applicable rate of interest.

Dividend income is recognised when the shareholder's right to receive payment has been established.

Rental income is recognised on a straight-line basis over the relevant lease terms.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rental income and expense is recognised on a straight-line basis over the relevant lease term.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expense in the year in which the operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised as expense in the period in which they are incurred.

Retirement benefit costs

Payments to defined contribution Mandatory Provident Fund Scheme and all other retirement scheme or similar defined contribution provident fund are charged as expenses as they fall due.

4. TURNOVER

Turnover represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, and gross rental income during the year.

An analysis of the Group's turnover is as follows:

	2003 HK\$'000	2002 HK\$'000
Sales of goods		
Manufacturing of steel cord	218,463	177,705
Processing and trading of copper and brass products	77,715	56,692
Others	791	5
	<u>296,969</u>	<u>234,402</u>
Rental income	302	489
	<u>297,271</u>	<u>234,891</u>

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

Segment information is presented by way of two segment formats (a) on a primary segment reporting basis, by business segment; and (b) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (i) the steel cord segment comprises the manufacturing of steel cords;
- (ii) the copper and brass products segment comprises the processing and trading of copper and brass products;
- (iii) the corporate segment comprises the Group's management services business, which provides corporate management service, together with corporate income and expense items. The segment of others mainly comprises property investment and the manufacturing of pre-stressed concrete strands and wires.

In determining the Group's geographical segments, revenues are attributed to the segment based on the location of the customers, and assets are attributed to the segment based on the location of the assets.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

Segment information about these businesses is presented below:

For the year ended 31 December 2003

	Steel cord HK\$'000	Copper and brass products HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
Segment revenue				
External sales	218,463	77,715	1,093	297,271
Other operating income	(287)	1,851	1,562	3,126
Total	<u>218,176</u>	<u>79,566</u>	<u>2,655</u>	<u>300,397</u>
Result				
Segment result	<u>92,186</u>	<u>3,590</u>	<u>(12,286)</u>	83,490
Unallocated corporate income and expenses, net				<u>(212)</u>
Profit from operations				83,278
Finance costs				(3,178)
Share of results of jointly controlled entities	–	–	6,847	6,847
Share of result of an associate	–	–	5,251	<u>5,251</u>
Profit before taxation				92,198
Income tax expenses				<u>(8,468)</u>
Profit before minority interests				83,730
Minority interests				<u>(17,638)</u>
Net profit attributable to shareholders				<u>66,092</u>

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**(a) Business segments (continued)****For the year ended 31 December 2003**

	Steel cord	Copper and brass products	Corporate and others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
OTHER INFORMATION				
Capital expenditure	69,995	851	2,639	73,485
Depreciation and amortisation	24,708	909	367	25,984
Allowances for				
bad and doubtful debts	26	120	–	146
Other non-cash expenses				
(income)	<u>287</u>	<u>(1,851)</u>	<u>(661)</u>	<u>(2,225)</u>
BALANCE SHEET				
Assets				
Segment assets	510,207	49,854	27,867	587,928
Interests in jointly controlled entities	–	–	48,911	48,911
Interests in associates	–	–	44,813	44,813
Goodwill	43,894	–	–	43,894
Club memberships	–	–	675	675
Consolidated total assets				<u>726,221</u>
Liabilities				
Segment liabilities	8,238	6,530	4,768	19,536
Unallocated corporate liabilities				<u>112,815</u>
Consolidated total liabilities				<u>132,351</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**(a) Business segments (continued)**

For the year ended 31 December 2002

	Steel cord HK\$'000	Copper and brass products HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
				(As restated)
Segment revenue				
External sales	177,705	56,692	494	234,891
Other operating income	—	—	475	475
	<u>177,705</u>	<u>56,692</u>	<u>969</u>	<u>235,366</u>
Total	<u>177,705</u>	<u>56,692</u>	<u>969</u>	<u>235,366</u>
Result				
Segment result	<u>74,771</u>	<u>948</u>	<u>(14,900)</u>	60,819
Unallocated corporate income and expenses, net				<u>(6,293)</u>
Profit from operations				54,526
Finance costs				(2,024)
Share of results of jointly controlled entities	—	—	6,853	6,853
Share of result of an associate	—	—	4,885	<u>4,885</u>
Profit before taxation				64,240
Income tax expenses				<u>(1,328)</u>
Profit before minority interests				62,912
Minority interests				<u>(20,431)</u>
Net profit attributable to shareholders				<u>42,481</u>

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**(a) Business segments (continued)**

For the year ended 31 December 2002

	Steel cord HK\$'000	Copper and brass products HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000 (As restated)
OTHER INFORMATION				
Capital expenditure	32,680	3,089	218	35,987
Depreciation and amortisation	22,669	505	409	23,583
Allowances for				
bad and doubtful debts	1,066	106	–	1,172
Other non-cash expenses	–	218	7,403	7,621
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
BALANCE SHEET				
Assets				
Segment assets	442,384	28,319	32,655	503,358
Interests in jointly controlled entities	–	–	51,097	51,097
Interests in associates	–	–	44,079	44,079
Club memberships	–	–	675	675
Consolidated total assets				<u> </u> <u> </u> 599,209
Liabilities				
Segment liabilities	10,036	2,613	4,792	17,441
Unallocated corporate liabilities				<u> </u> 51,777
Consolidated total liabilities				<u> </u> <u> </u> 69,218

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments

	Hong Kong		China (the "PRC")		Other regions in the People's Republic of Others		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	43,525	53,796	253,444	180,291	–	315	296,969	234,402
Gross rental income	302	489	–	–	–	–	302	489
	43,827	54,285	253,444	180,291	–	315	297,271	234,891
Other segment information:								
Segment assets	95,712	43,242	630,509	555,967	–	–	726,221	599,209
Capital expenditure	47,106	1,255	26,379	34,732	–	–	73,485	35,987

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6. PROFIT FROM OPERATIONS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Cost of inventories sold	190,813	158,808
Staff costs, including directors' remuneration (Note 7):		
– Salaries, wages and other benefits	22,772	22,045
– Retirement benefit scheme contributions	875	798
Total staff costs	23,647	22,843
Depreciation		
– Owned assets	24,396	22,871
– Leased assets	418	153
Auditors' remuneration	400	700
Amortisation of land use rights (included in "Cost of sales")	614	559
Amortisation of goodwill (included in "Other operating expenses")	556	–
Foreign exchange losses, net	455	370
Deficit on revaluation of investment properties	–	1,000
Deficit on revaluation of leasehold land and buildings, net	–	126
Loss on disposal of property, plant and equipment, net	33	12
Loss on write off of interest in a jointly controlled entity	–	6,495
and after crediting:		
Surplus on revaluation of investment properties	386	–
Surplus on revaluation of leasehold land and buildings, net	1,839	–
Gross rental income	302	489
Less: outgoings	(55)	–
Net rental income	247	489
Interest income	377	214

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2003 HK\$'000	2002 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	40	–
	<u>40</u>	<u>–</u>
Other emoluments of executive directors:		
Salaries and other benefits	4,722	5,302
Retirement benefit scheme contributions	12	12
Discretionary bonus	–	50
	<u>4,734</u>	<u>5,364</u>
Total directors' emoluments	<u><u>4,774</u></u>	<u><u>5,364</u></u>

The amounts disclosed above include directors' fees of HK\$40,000 (2002: HK\$Nil) payable to the independent non-executive directors.

The emoluments of the directors were within the following bands:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	6	5
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$1,500,001 to HK\$2,000,000	2	3
	<u>9</u>	<u>8</u>

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7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)**(b) Employees' emoluments**

During the year, the five highest paid individuals included three directors (2002: three directors), details of whose emoluments are set out above. The emoluments of the remaining two (2002: two) highest paid individuals were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	1,320	1,294
Retirement benefit scheme contributions	24	24
	1,344	1,318

Their emoluments were within the following bands:

	Number of employees	
	2003	2002
Nil to HK\$1,000,000	2	2

8. FINANCE COSTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Interest on bank and other borrowings wholly repayable within five years	2,014	2,003
Interest on finance leases	64	21
Other finance costs	1,100	–
	3,178	2,024

9. INCOME TAX EXPENSES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000 (As restated)
Current tax:		
Hong Kong	–	–
Other regions in the PRC	6,397	7
	6,397	7
Deferred taxation (Note 27):		
Current year	71	(310)
Attributable to change in tax rate	78	–
	149	(310)
Taxation attributable to the Company and its subsidiaries	6,546	(303)
Share of taxation attributable to a jointly controlled entity	1,214	876
Share of taxation attributable to an associate	708	755
	8,468	1,328

No provision for Hong Kong Profits Tax has been made as the Group had no assessable profits for both years.

The Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from year of assessment 2003/2004. The effect of this increase has been reflected in the calculation of deferred tax balances at 31 December 2003.

Taxation in the PRC is calculated at the rates prevailing in the PRC. Certain subsidiaries, jointly controlled entities and associate of the Group operating in the PRC are eligible for certain tax exemptions and concessions. Accordingly, PRC income tax has been provided taking into account of these tax exemptions and concessions.

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9. INCOME TAX EXPENSES (continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2003		2002	
	HK\$'000	%	HK\$'000	%
Profit before taxation	<u>92,198</u>		<u>64,240</u>	
Tax at domestic income tax rate of 15% (2002: 15%)	13,830	15.00	9,636	15.00
Tax effect of expenses not deductible in determining taxable profit	948	1.03	2,671	4.16
Tax effect of income not taxable in determining taxable profit	(1,155)	(1.25)	(818)	(1.27)
Tax effect of tax losses not recognised	2,030	2.20	1,712	2.67
Tax effect of recognition of tax losses previously not recognised	(255)	(0.28)	-	-
Tax effect of recognition of deferred tax assets previously not recognised	(413)	(0.45)	(3,288)	(5.12)
Tax effect of utilisation of tax losses previously not recognised	(112)	(0.12)	-	-
Tax effect on share of result of a jointly controlled entity	187	0.20	(152)	(0.24)
Tax effect on share of result of an associate	(80)	(0.09)	22	0.03
Effect of tax exemptions granted to a PRC subsidiary	(6,366)	(6.90)	(8,344)	(12.99)
Effect of different tax rates in other jurisdictions	(224)	(0.24)	(111)	(0.17)
Effect of change in tax rates	78	0.08	-	-
	<u>8,468</u>	<u>9.18</u>	<u>1,328</u>	<u>2.07</u>
Tax expense and effective tax rate for the year				

Note: The domestic tax rate in the jurisdiction where the operation of the Group is substantially based is used.

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties and land use rights has been charged directly to equity (see note 27).

10. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Ordinary shares:		
Interim dividend paid – HK1.5 cents per share (2002: Nil)	<u>15,238</u>	<u>–</u>

The final dividend of HK2.0 cents (2002: Nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000 (As restated)
Profit for the year	<u>66,092</u>	<u>42,481</u>
Weighted average number of ordinary shares for the purposes of basic earnings per share	881,110,017	765,372,000
Effect of dilutive potential ordinary shares: Share options	<u>63,319,274</u>	<u>–</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>944,429,291</u>	<u>765,372,000</u>

In 2002, no diluted earnings per share has been presented because the exercise price of the Company's share options was higher than the average market price of shares.

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12. INVESTMENT PROPERTIES

	THE GROUP
	HK\$'000
At 1 January 2003	8,000
Surplus on revaluation	<u>386</u>
At 31 December 2003	<u><u>8,386</u></u>

Investment properties were valued at their open market value at 31 December 2003 by Vigers International Property Consultant ("Vigers International"), an independent professional valuer. This valuation gave rise to a revaluation surplus of HK\$386,000 which has been credited to the consolidated income statement as a deficit has previously been charged to the consolidated income statement.

The carrying amount of investment properties comprises land and buildings in Hong Kong and other regions in the PRC as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Long-term lease in Hong Kong	4,140	4,130
Medium-term lease in other regions in the PRC	4,246	<u>3,870</u>
	<u>8,386</u>	<u><u>8,000</u></u>

Investment properties situated in Hong Kong are rented out under operating leases, while investment properties situated in other regions in the PRC are vacant.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Leasehold improvements	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
COST OR VALUATION							
At 1 January 2003	53,230	1,013	344,695	7,471	6,103	24,044	436,556
Additions	2,404	141	1,328	336	1,218	23,608	29,035
Reclassifications	-	-	20,266	-	-	(20,266)	-
Disposals	(2,600)	(19)	(6)	(1,149)	-	-	(3,774)
Deficit on revaluation, net	(3,316)	-	-	-	-	-	(3,316)
	<u>49,718</u>	<u>1,135</u>	<u>366,283</u>	<u>6,658</u>	<u>7,321</u>	<u>27,386</u>	<u>458,501</u>
At 31 December 2003							
Comprising:							
At cost	-	1,135	366,283	6,658	7,321	27,386	408,783
At valuation	49,718	-	-	-	-	-	49,718
	<u>49,718</u>	<u>1,135</u>	<u>366,283</u>	<u>6,658</u>	<u>7,321</u>	<u>27,386</u>	<u>458,501</u>
ACCUMULATED							
DEPRECIATION							
At 1 January 2003	-	987	103,622	6,102	4,435	-	115,146
Provided during the year	2,383	20	21,601	361	449	-	24,814
Eliminated on disposals	(46)	(19)	(6)	(1,144)	-	-	(1,215)
Write back on revaluation	(2,337)	-	-	-	-	-	(2,337)
	<u>-</u>	<u>988</u>	<u>125,217</u>	<u>5,319</u>	<u>4,884</u>	<u>-</u>	<u>136,408</u>
At 31 December 2003							
NET BOOK VALUE							
At 31 December 2003	<u>49,718</u>	<u>147</u>	<u>241,066</u>	<u>1,339</u>	<u>2,437</u>	<u>27,386</u>	<u>322,093</u>
At 31 December 2002	<u>53,230</u>	<u>26</u>	<u>241,073</u>	<u>1,369</u>	<u>1,668</u>	<u>24,044</u>	<u>321,410</u>

Notes to Financial Statements

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Furniture, fixtures and equipment	
	HK\$'000	
THE COMPANY		
COST		
At 1 January 2003 and at 31 December 2003		276
ACCUMULATED DEPRECIATION		
At 1 January 2003		274
Provided during the year		2
At 31 December 2003		276
NET BOOK VALUE		
At 31 December 2003		—
At 31 December 2002		2
THE GROUP		
	2003	2002
	HK\$'000	HK\$'000
The carrying amount of leasehold land and buildings comprises:		
Medium-term leases in Hong Kong	7,000	5,480
Long-term leases in other regions in the PRC	1,415	1,300
Medium-term leases in other regions in the PRC	41,303	46,450
	49,718	53,230

The leasehold land and buildings of the Group were valued at 31 December 2003 by Vigers International on an open market value basis. Vigers International is not connected with the Group.

13. PROPERTY, PLANT AND EQUIPMENT (continued)

If leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$57,956,000 (2002: HK\$60,699,000).

The net book value of property, plant and machinery includes plant and machinery of HK\$1,601,000 (2002: HK\$1,419,000) and motor vehicles of HK\$303,000 (2002: HK\$394,000) held under finance leases.

14. LAND USE RIGHTS

	THE GROUP
	HK\$'000
<hr/>	
VALUATION	
At 1 January 2003	13,500
Surplus on revaluation	<u>3,481</u>
At 31 December 2003	<u>16,981</u>
ACCUMULATED AMORTISATION	
At 1 January 2003	–
Provided during the year	614
Write back on revaluation	<u>(614)</u>
At 31 December 2003	<u>–</u>
NET BOOK VALUE	
At 31 December 2003	<u><u>16,981</u></u>
At 31 December 2002	<u><u>13,500</u></u>

The Group's land use rights have a tenure of 30 years and are related to land used by the Group's subsidiary in the PRC.

Notes to Financial Statements

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14. LAND USE RIGHTS (continued)

The Group's land use rights were revalued at 31 December 2003 by Vigers International on an open market value basis. A revaluation surplus of HK\$4,095,000 resulting from the above valuation has been credited to the land use rights revaluation reserve. Had these land use rights been carried at cost less accumulated amortisation, the carrying amount of the land use rights would have been included in the financial statements at approximately HK\$8,005,000 (2002: HK\$8,386,000).

As at 31 December 2002, the Group's land use rights with a net book value of HK\$13,500,000 were pledged to secure certain bank borrowings granted to the Group. The Group's land use rights had not been pledged as at 31 December 2003.

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	2,769	2,769
Amounts due from subsidiaries	696,316	518,382
	699,085	521,151
Less: Allowances for amounts due from subsidiaries	(203,814)	(203,814)
	495,271	317,337
Less: Current portion of amount due from a subsidiary	(23,000)	–
	472,271	317,337
Non-current portion of amounts due to subsidiaries	3,622	12,230

The amounts due from subsidiaries are unsecured, interest free and have no fixed repayment terms. Except for the balance due from a subsidiary of HK\$14,490,000 (2002: HK\$14,043,000) which bears interest at the London Interbank Offered Rate ("LIBOR") plus 3% (2002: LIBOR plus 3%) per annum, the remaining balances are interest free. In the opinion of the directors, except for the amount due from a subsidiary of HK\$23,000,000 (2002: HK\$Nil), the amounts will not be repayable within twelve months from the balance sheet date and the balances are therefore classified as non-current.

Details of the Company's principal subsidiaries at 31 December 2003 are set out in note 36 to the financial statements.

16. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Unlisted investments, at cost	–	–	56,550	56,550
Share of net assets	48,911	47,439	–	–
Dividend receivable	–	3,658	–	–
	48,911	51,097	56,550	56,550
Less: Impairment losses	–	–	(56,550)	(56,550)
	48,911	51,097	–	–

Particulars of the Group's principal jointly controlled entities are set out in note 37 to the financial statements.

17. INTERESTS IN ASSOCIATES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	44,813	44,079

Particulars of the Group's associates are set out in note 38 to the financial statements.

Notes to Financial Statements

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18. GOODWILL

	THE GROUP
	HK\$'000
<hr/>	
COST	
Arising on acquisition of additional interests in subsidiaries and balance at 31 December 2003	44,450
AMORTISATION	
Charge for the year and balance at 31 December 2003	556
NET BOOK VALUE	
At 31 December 2003	43,894

The amortisation period adopted for goodwill is 20 years.

19. CLUB MEMBERSHIPS

	THE GROUP		THE COMPANY	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<hr/>				
Club memberships, at cost	2,010	2,010	820	820
Less: Impairment losses	(1,335)	(1,335)	(505)	(505)
	675	675	315	315

20. INVESTMENT SECURITIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
<hr/>		
Unlisted equity investment, at cost	1,123	1,123
Less: Impairment losses	(1,123)	(1,123)
	-	-

21. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Raw materials	21,523	16,837
Work in progress	3,056	5,903
Finished goods	19,319	9,824
	<u>43,898</u>	<u>32,564</u>

The inventories were stated at cost.

22. TRADE RECEIVABLES

The Group normally allows credit periods of 30 – 120 days to its trade customers.

The following is an aged analysis of trade receivables as at the balance sheet date:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 90 days	52,470	42,529
91 – 180 days	1,071	4,127
Over 180 days	57	1,292
	<u>53,598</u>	<u>47,948</u>

Notes to Financial Statements

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23. PLEDGE OF ASSETS

The bank deposits were pledged to secure certain short-term bank borrowings as set out in note 25 to the financial statements.

Other pledged assets

At 31 December 2003, the Group's shares in certain subsidiaries were pledged as security for the financing of part of the acquisition cost of approximately 28.24% equity interest in Online Investments Limited.

The Group's investment properties amounting to HK\$8,386,000 (2002: HK\$8,000,000) and net book value of leasehold land and buildings amounting to HK\$8,415,000 (2002: HK\$32,929,000) as set out in notes 12 and 13 to the financial statements were also pledged to secure certain bank borrowings as set out in note 25 to the financial statements.

24. TRADE PAYABLES

The following is an aged analysis of trade payables as at the balance sheet date:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
0 – 90 days	6,937	5,356
91 – 180 days	37	13
Over 180 days	975	973
	7,949	6,342

25. BANK BORROWINGS

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Trust receipt loans	37,359	16,944	8,177	3,498
Bank loans	72,171	5,655	60,000	–
	<u>109,530</u>	<u>22,599</u>	<u>68,177</u>	<u>3,498</u>
Secured	109,086	22,599	68,177	3,498
Unsecured	444	–	–	–
	<u>109,530</u>	<u>22,599</u>	<u>68,177</u>	<u>3,498</u>

The above amounts bear interest at floating interest rates and are repayable as follows:

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Within one year	61,530	22,599	20,177	3,498
In the second year	24,000	–	24,000	–
In the third to fifth year inclusive	24,000	–	24,000	–
	<u>109,530</u>	<u>22,599</u>	<u>68,177</u>	<u>3,498</u>
Less: Amount due for settlement within one year (shown under current liabilities)	<u>(61,530)</u>	<u>(22,599)</u>	<u>(20,177)</u>	<u>(3,498)</u>
Amount due for settlement after one year	<u>48,000</u>	<u>–</u>	<u>48,000</u>	<u>–</u>

Notes to Financial Statements

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26. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts payable under finance leases:				
Within one year	956	934	922	872
In the second to fifth year inclusive	211	714	206	698
	<u>1,167</u>	<u>1,648</u>	<u>1,128</u>	<u>1,570</u>
Less: Future finance charges	(39)	(78)	–	–
Present value of lease obligations	<u>1,128</u>	<u>1,570</u>	<u>1,128</u>	<u>1,570</u>
Less: Amount due for settlement within one year (shown under current liabilities)			(922)	(872)
Amount due for settlement after one year			<u>206</u>	<u>698</u>

The Group leased certain of its plant and machinery and motor vehicles under finance leases. The average lease term is two years. For the year ended 31 December 2003, the average effective borrowing rate was Hong Kong Dollar prime rate plus 0.25% (2002: Hong Kong Dollar prime rate plus 0.25%) per annum. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

27. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the year and prior reporting period:

THE GROUP	Accelerated	Allowance	Revaluation	Revaluation	Tax losses	Total	
	tax	for bad and	of	of land			
	depreciation	doubtful	inventories	properties	use rights		
	HK\$'000	debts	for	of	of land	HK\$'000	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2002							
– as previously stated	-	-	-	-	-	-	-
– adjustment on adoption of SSAP 12 (Revised)	25	-	-	438	709	-	1,172
– as restated	25	-	-	438	709	-	1,172
Charge (credit) to income statement for the year	90	(357)	(43)	-	-	-	(310)
Charge to equity for the year	-	-	-	252	181	-	433
At 31 December 2002 and 1 January 2003							
	115	(357)	(43)	690	890	-	1,295
Effect of change in tax rate							
Charge to income statement	23	49	6	-	-	-	78
Credit to equity	-	-	-	(76)	(123)	-	(199)
Charge (credit) to income statement for the year	174	159	(7)	-	-	(255)	71
(Credit) charge to equity for the year	-	-	-	(478)	556	-	78
At 31 December 2003							
	312	(149)	(44)	136	1,323	(255)	1,323

Notes to Financial Statements

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27. DEFERRED TAX LIABILITIES (continued)

As at the balance sheet date, the Group has unprovided deferred tax assets in respect of unrecognised tax losses amounting to HK\$49,542,000 (2002: HK\$41,117,000) which may be carried forward indefinitely.

The above deferred tax assets have not been recognised due to the unpredictability of future profit streams.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

28. SHARE CAPITAL

	2003		2002	
	Number of shares	Nominal value HK\$'000	Number of shares	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At 1 January	1,000,000,000	100,000	1,000,000,000	100,000
Increased on 25 June 2003	1,000,000,000	100,000	–	–
At 31 December	<u>2,000,000,000</u>	<u>200,000</u>	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:				
At 1 January	765,372,000	76,537	765,372,000	76,537
Issued on share placing (<i>Notes i and ii</i>)	123,492,000	12,349	–	–
Issued on subscription of new shares (<i>Note i</i>)	126,984,000	12,699	–	–
Exercise of share options	3,732,000	373	–	–
At 31 December	<u>1,019,580,000</u>	<u>101,958</u>	<u>765,372,000</u>	<u>76,537</u>

Notes:

- (i) In order to finance the expansion of its subsidiary, Jiaying Eastern Steel Cord Co., Ltd. (“Jiaying Eastern”) and to generate working capital for the Group, the Company entered into a subscription agreement and placing agreement on 6 May 2003 pursuant to which the Company issued and allotted 126,984,000 and 63,492,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.315 per share to a nominee of Shougang Holding (Hong Kong) Limited (“Shougang HK”) and to independent placees respectively.
- (ii) In order to finance the acquisition of remaining equity interest of Online Investments Limited, an intermediate holding company of Jiaying Eastern, and to generate working capital for the Group, the Company entered into a placing agreement on 21 August 2003 with placing agents pursuant to which the Company issued and allotted 60,000,000 ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.68 per share to independent placees.

The new shares rank pari passu with the existing shares in all respects.

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29. RESERVES

THE COMPANY	Share premium HK\$'000	Capital reserve HK\$'000	(Accumulated Capital redemption reserve HK\$'000		Total HK\$'000
				losses) retained profits HK\$'000	
At 1 January 2002	357,181	23,990	463	(149,099)	232,535
Net loss for the year	—	—	—	(2,591)	(2,591)
At 31 December 2002 and 1 January 2003	357,181	23,990	463	(151,690)	229,944
Reduction of share premium	(149,099)	—	—	149,099	—
Share issue expenses	(4,262)	—	—	—	(4,262)
Issue of shares	75,752	—	—	—	75,752
Exercise of share options	1,232	—	—	—	1,232
Net profit for the year	—	—	—	23,971	23,971
At 31 December 2003	<u>280,804</u>	<u>23,990</u>	<u>463</u>	<u>21,380</u>	<u>326,637</u>

The capital reserve of the Company represented the benefit of acquiring a shareholder's loan at a nominal consideration of HK\$1 upon the acquisition of a subsidiary in previous years.

Pursuant to the order issued by the Court of First Instance of the Hong Kong Special Administrative Region, the share premium account of the Company has been reduced by the amount of approximately HK\$149,099,000 and the same amount of credit arising from such reduction has been applied towards the elimination of the accumulated losses.

30. OPERATING LEASES

The Group as lessee

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Minimum lease payments under operating leases in respect of land and buildings during the year	<u>1,372</u>	<u>897</u>

30. OPERATING LEASES (continued)**The Group as lessee (continued)**

The Group leases certain of its offices, factory premises and staff quarters under operating lease arrangements. Leases are negotiated for an average term of three years.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	525	393
In the second to fifth year inclusive	181	543
	<u>706</u>	<u>936</u>

The Group as lessor

Property rental income earned during the year was HK\$302,000 (2002: HK\$489,000). The Group leases its investment properties under operating lease arrangements, with leases negotiated for an average term of two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	346	131
In the second to fifth year inclusive	391	–
	<u>737</u>	<u>131</u>

The Company had no commitment under operating leases in both years.

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31. CAPITAL COMMITMENTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Commitments in respect of the acquisition of property, plant and equipment		
– contracted for but not provided in the financial statements	126,210	5,818
– authorised but not contracted for	54,250	188,111
	180,460	193,929

The Company did not have any significant commitments in both years.

32. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Guarantees given to banks in respect of banking facilities granted to subsidiaries	–	–	120,000	64,000
Guarantee for bank loans granted to a jointly controlled entity	10,721	23,360	–	–
	10,721	23,360	120,000	64,000

33. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees who are eligible to participate in the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of the relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries which operates in the PRC are required to participate in a retirement scheme or other similar defined contribution provident fund operated by the local municipal government. These PRC subsidiaries are required to contribute 20% to 23% of its payroll costs to the scheme/fund. The contributions are charged to the income statement as they become payable in accordance with the rules of the scheme/fund.

34. SHARE OPTION SCHEME

A share option scheme (the "2002 Scheme") was adopted by the shareholders of the Company at the annual general meeting held on 7 June 2002. Under the 2002 Scheme, the board of directors (the "Board") of the Company shall, subject to and in accordance with the provisions of the 2002 Scheme and The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, grant share options to any eligible participant to subscribe for shares in the capital of the Company.

The Company operates the 2002 Scheme for the purpose of providing incentives and rewards to eligible participants for their contributions to the Group or potential contribution to the Group. Eligible participants of the 2002 Scheme include any director (including executive and independent non-executive), executive, officer, employee or shareholder of the Company or any of the subsidiaries or any of the associates or any of the jointly controlled entities and any supplier, customer, consultant, adviser, agent, partner or business associate who will contribute or has contributed to the Group. The 2002 Scheme became effective on 7 June 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares available for issue under the 2002 Scheme is 41,681,000 shares which represented 4.08% of the issued share capital of the company as at the date of approval of this annual report. The maximum number of shares issuable under the share options to each eligible participant in the 2002 Scheme within any 12-months period is limited to 1% of the issued share capital of the Company in issue under the 2002 Scheme. Any further grant of share options in excess of this limit is subject to shareholder's approval in a general meeting.

The offer of a grant of share options may be accepted within 60 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. An option may be exercised under the 2002 Scheme at any time within 10 years from the date of grant of the options or may be determined by the Board at its absolute discretion. The minimum period for which an option must be held before it can be exercised will be determined by the Board at its discretion.

The exercise price per share in relation to an option shall be a price to be determined by the Board and shall be no less than the highest of (a) the official closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange on the date on which the option is offered to an eligible participant, which must be a business day; or (b) the official average closing price of the shares of the Company as stated in the daily quotation sheets issued by the Stock Exchange for the 5 business days immediately preceding the date of offer of option to an eligible participant; or (c) the nominal value of shares of the Company on the date of offer of option to an eligible participant.

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34. SHARE OPTION SCHEME (continued)

Share options do not confer rights on the holders to dividends or to vote at shareholders' meeting.

Apart from the details set out under the heading "DIRECTORS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS" in the Report of the Directors, the following table disclose details of the Company's share options held by eligible participants and movements in such holdings in relation to the 2002 Scheme during the year:

Grantees	Number of share options for 2003				Date of grant (Note b)	Exercise period	Exercise price per share HK\$
	At 1.1.2003	Granted during the year	Exercised during the year	At 31.12.2003			
Directors of the Company	40,556,000	-	-	40,556,000	23.8.2002	23.8.2002 - 22.8.2012	0.295
	-	8,416,000	-	8,416,000	12.3.2003	12.3.2003 - 11.3.2013	0.325
	-	68,882,000	-	68,882,000	25.6.2003	25.6.2003 - 24.6.2013	0.365
	-	6,356,000	-	6,356,000	25.8.2003	25.8.2003 - 24.8.2013	0.740
	-	57,350,000	-	57,350,000	2.10.2003	2.10.2003 - 1.10.2013	0.780
	<u>40,556,000</u>	<u>141,004,000</u>	<u>-</u>	<u>181,560,000</u>			
Employees other than directors of the Company	1,532,000	-	766,000	766,000	23.8.2002	23.8.2002 - 22.8.2012	0.295
	-	3,064,000	1,966,000	1,098,000	12.3.2003	12.3.2003 - 11.3.2013	0.325
	-	28,500,000	1,000,000	27,500,000	25.8.2003	25.8.2003 - 24.8.2013	0.740
	<u>1,532,000</u>	<u>31,564,000</u>	<u>3,732,000</u>	<u>29,364,000</u>			
All other eligible participants	7,652,000	-	-	7,652,000	23.8.2002	23.8.2002 - 22.8.2012	0.295
	-	15,304,000	-	15,304,000	12.3.2003	12.3.2003 - 11.3.2013	0.325
	<u>7,652,000</u>	<u>15,304,000</u>	<u>-</u>	<u>22,956,000</u>			
	<u>49,740,000</u>	<u>187,872,000</u>	<u>3,732,000</u>	<u>233,880,000</u>			

34. SHARE OPTION SCHEME (continued)

Notes:

- a. The closing prices of the shares immediately before the dates on which the share options were granted during the year were as follows:

Date of grant	Closing price immediately before the date of grant
	HK\$
12.3.2003	0.315
25.6.2003	0.410
25.8.2003	0.730
2.10.2003	0.750

- b. The vesting period of the share options is from the date of grant to the end of the exercise period.
- c. The weighted average closing price of the shares immediately before the dates on which the share options were exercised by the employees other than the directors of the Company was HK\$1.19.
- d. No share option was lapsed or cancelled during the year.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such time as the share options are exercised, and no charge is recognised in the income statement in respect of the value of share options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding share options.

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35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances detailed elsewhere in these financial statements, during the year, the Group had the following material transactions with Shougang Concord International Enterprises Company Limited (“Shougang International”) and its subsidiaries (collectively the “Shougang International Group”), Shougang HK and its subsidiaries (collectively the “Shougang HK Group”) and jointly controlled entity of the Group. Shougang International is the substantial shareholder of the Company and Shougang HK is the controlling shareholder of Shougang International and is the substantial shareholder of the Company.

	<i>Notes</i>	2003 HK\$'000	2002 HK\$'000
Consultancy fees paid to the Shougang HK Group	(i)	480	120
Management fees paid to the Shougang International Group	(i)	240	600
Rental expenses paid to the:			
Shougang HK Group	(ii)	968	938
Shougang International Group	(ii)	–	78
(Repayment from) advance to the Shougang HK Group	(iii)	(471)	471
Interest paid to the Shougang HK Group	(iv)	–	138
Corporate guarantees given to a jointly controlled entity	(v)	10,721	23,360
		10,721	23,360

35. RELATED PARTY TRANSACTIONS (continued)

Notes:

- (i) The Group paid consultancy fees to the Shougang HK Group and paid management fees to the Shougang International Group in relation to business and strategic development services provided at rates determined between both parties.
- (ii) The Group paid rental expenses to the Shougang HK Group and the Shougang International Group for the leasing of properties in Hong Kong as office premises and staff quarters. The rental was calculated by reference to market rentals.
- (iii) The loan advanced to Shougang HK Group is unsecured, interest-free and was fully repaid during the year.
- (iv) The loans advanced from the Shougang HK Group were secured by the Group's interest in a jointly controlled entity (the "Security") with interest payable at the Hong Kong Interbank Offered Rate per annum. The loans were fully repaid and the Security was released in 2002.
- (v) The Group has executed corporate guarantees for bank loans granted to a jointly controlled entity to finance its working capital. These guarantees were provided in proportion to the Group's equity interest in the jointly controlled entity and are normally renewable on an annual basis.

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36. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued and paid-up capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2003	2002	
Bogay Investment Limited	Hong Kong	100 ordinary shares of HK\$1 each 100,000 non-voting deferred shares of HK\$1 each	100%*	100%*	Investment holding
Meta Company Limited	Hong Kong	100 ordinary shares of HK\$1 each 18,000,000 non-voting deferred shares of HK\$1 each	100%*	100%*	Investment holding
Meta International Limited	Hong Kong/ PRC	2 ordinary shares of HK\$1 each	100%*	100%*	Processing and trading of copper and brass products
Hing Cheong Metals (China & Hong Kong) Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%	91%	Processing and trading of copper and brass products
Fair Win Development Limited	Hong Kong/ PRC	500,000 ordinary shares of HK\$1 each	100%	100%	Property investment
Heroland Investment Limited	Hong Kong	2 ordinary shares of HK\$1 each	100%	100%	Property investment

36. PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued and paid-up capital/ registered capital	Attributable equity interest of the Group		Principal activities
			2003	2002	
Bigland Investment Limited	Hong Kong/ PRC	2 ordinary shares of HK\$1 each	100%	100%	Property investment
Eastern Century Metal Products Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%	100%	Trading of metals and investment holding
Online Investments Limited	British Virgin Islands/ Hong Kong	31,000,000 ordinary shares of US\$1 each	100%	71.8%	Investment holding
Everwinner Investments Limited	Hong Kong	1,000,000 ordinary shares of HK\$1 each	100%	71.8%	Investment holding
Jiaxing Eastern Steel Cord Co., Ltd.#	PRC	US\$44,000,000	100%	71.8%	Manufacturing of steel cord

A wholly foreign owned enterprise.

* Directly held by the Company.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any loan capital subsisting at the end of the year or at any time during the year.

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37. PARTICULARS OF THE PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the principal jointly controlled entities as at 31 December 2003 are as follows:

Name	Business structure	Place of registration and operation	Registered capital	Percentage of equity attributable to the Group	Percentage of voting power attributable to the Group	Percentage of profit and loss attributable to the Group	Principal activities
Shanghai Shenjia Metal Products Co., Ltd.	Incorporated	PRC	US\$10,000,000	25	33	25	Manufacturing of pre-stressed concrete strands and wires
Shanxi Shengjia Real Estate Developing Co., Ltd.	Incorporated	PRC	RMB19,000,000	25	29	25	Property development

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors, principally affect the results for the year or formed a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

38. PARTICULARS OF THE ASSOCIATES

Particulars of the associates at 31 December 2003 are as follows:

Name	Business structure	Place of registration/ incorporation and operation	Issued and paid-up capital	Percentage of equity attributable to the Group		Principal activities
				2003	2002	
Xinhua Metal Products Co., Ltd. (Note)	Incorporated	PRC	193,220,374 shares of RMB1 each	16.75%	16.75%	Manufacturing of pre-stressed concrete strands and wires
Sky Fond Investment Limited	Incorporated	Hong Kong	1,500,000 ordinary shares of HK\$1 each	50%	50%	Dormant

Note: Xinhua Metal Products Co., Ltd. ("Xinhua") is listed on the Shanghai Stock Exchange in the PRC. The shares in Xinhua held by the Group are legal person shares and are not tradable on any stock exchange. Pursuant to the memorandum of association, the Group is entitled to its equity share in the profits and losses and the net assets upon its cessation. In the opinion of the directors, the Group is in a position to exercise significant influence over Xinhua. Accordingly, it has been accounted for as an associate.